REPORT OF THE DIRECTORS & Management Discussion and Analysis

For the Financial Year Ended 31st March, 2002

Your Directors submit their Report for the financial year ended 31st March, 2002.

SOCIO-ECONOMIC ENVIRONMENT

The year under review witnessed a significant slowdown in the global economy. Output growth dropped to 2.4% against 4.7% in 2000. Similarly, the rate of growth in world trade declined sharply to just 1% in 2001 compared to 12.4% in the previous year. By comparison, GDP growth in India was higher at 5.4% for 2001-02, although below the target of 6.5%. India could have achieved its targeted growth had it not been for the slowdown in the industrial sector, which posted its lowest growth rate in a decade of merely 2.7%. The recovery in the services sector was impeded by the unfortunate events of September and December 2001, which had an immediate adverse impact on the travel and tourism industry. The performance of the agricultural sector buoyed the GDP with a robust growth of 5.7%. With the Indian economy still reliant to a large extent on the rural sector to stimulate demand, it is a matter of concern that in the absence of appropriate diversification of land use aligned to market demand, the growth has served to aggravate the situation arising from overstocked granaries.

The years ahead are ones of both significant opportunities and formidable challenges. The early signs of recovery in the US economy should augur well for world trade. The entry of China into the WTO could pose challenges not only for Indian industry but also for Indian agriculture in view of China's much higher productivity levels. The fast pace of globalisation is increasingly resulting in prices of goods being determined by global markets, whereas costs continue to be rooted largely in the domestic economy. Successful economic development is determined by the interplay of two mutually supportive ingredients - enterprise competitiveness and the vitality of the economy as a supplier of globally competitive inputs. Indian companies will have to hasten the achievement of international competitiveness. The Governments, both at the Central and State levels, will need to accelerate reforms in a bid to urgently upgrade social and physical infrastructure and to create a climate such that investments rooted in the soil of India can become globally competitive.

The growing fiscal imbalance, particularly at the level of the States, is leading some of the States to impose indiscriminate and differential taxation. Such taxes militate against the need to establish a larger common Indian market, necessary for creating competitiveness in a globalising environment. Such shortsighted actions triggered by self-interest at the State level carry the potential of causing irretrievable long term injury to the affected sectors of the economy. There is an urgent need for a harmonised taxation structure that provides buoyancy of revenue from an expanding tax base induced by moderation of taxes, thereby taking the fullest advantage of the larger unified Indian market comprising more than a billion people.

It is axiomatic that high rates of inclusive economic growth cannot be sustained without putting in place an effective growth strategy for rural India. Growth in rural incomes is both a means and an end of India's economic objectives. The prolonged slowdown in industrial growth has highlighted even more starkly the vital need to sustain rural demand. Your Company, as part and parcel of its endeavour to enhance the competitiveness of its agri-based businesses, is engaged in making a major contribution to the Indian farming sector. Your Company's IT-enabled interventions carry the potential to yield a profound transformational impact on India's rural economy. Vignettes of these interventions are set out in the pictorial sections of this Report. In a climate of growing competitive challenges, the strategy of your Company aims to leverage the diverse skills and resources accumulated over time to nurture world-class businesses that would create growing value for the Indian economy and yield handsome rewards for shareholders.

COMPANY PERFORMANCE

Despite difficult trading conditions, your Company concluded yet another year of satisfying results. The financial results for the year ended 31st March, 2002 include that of ITC Bhadrachalam Paperboards Limited, which was amalgamated with your Company with effect from 1st April, 2001. The impact of the amalgamation is set out later in the Report. Gross Turnover grew by an impressive 13% to Rs. 9840 crores. Post-tax profit increased by 18% to Rs. 1190 crores, while Pre-tax profit at Rs. 1780 crores registered a growth of 11%. This performance is even more satisfying as it has been

achieved despite severe cost and revenue pressures stemming from a steep increase in cigarette taxes, the tobacco crop holiday in Andhra Pradesh, the gestation of new hotel investments and the incubation of new businesses for tomorrow's growth. The financial results thus reflect your Company's soundness of operations and robustness of strategy.

Relentless focus on the efficiency of capital deployment, including working capital, contained the increase in Net Assets Employed to a mere 7%, including the impact of amalgamation of the paperboards business and the strategic capital outlays towards attaining international competitiveness. Consequently, cash flows from operations at Rs. 1770 crores represented an increase of over 78%. These cash flows also enabled significant debt retirement, resulting in further reduction in interest costs.

In order to strike a balance between the need to sustain strategic investments for a secure future and the annual expectation of shareholders for growing income, your Directors are pleased to recommend a dividend of Rs. 13.50 per share (previous year Rs. 10 per share) for the year ended 31st March, 2002. The cash outflow in this regard will be Rs. 334.14 crores (previous year Rs. 270.45 crores including Dividend Tax of Rs. 25.03 crores). The proposed dividend represents a growth of 35%. Your Board further recommends a transfer to General Reserve of Rs. 800 crores (previous year Rs. 700 crores). Consequently, your Board recommends leaving an unappropriated balance in the Profit and Loss Account of Rs. 325.87 crores (previous year Rs. 282.50 crores).

PROFITS, DIVIDENDS AND RETENTION

(Rs. in crores)

	2002	2001
a) Profit Before Tax	1780.26	1600.30
b) Income Tax	590.54	594.04
c) Profit After Tax	1189.72	1006.26
d) Add : Profit brought forward from previous year	282.50	201.28
e) Transfer from Hotel Foreign Exchange Earnings Reserve	—	54.01
Less : Transfer to Hotel Foreign Exchange Earnings Reserve	3.00	6.00
f) Release from Investment Allowance Reserve	—	0.40
g) Surplus available for Appropriation	1469.22	1255.95
h) Transfer to Debenture Redemption Reserve	21.49	17.50
i) Less : Release from Debenture Redemption Reserve	12.28	14.50
j) Transfer to General Reserve	800.00	700.00
k) Proposed dividend for the financial year at a rate of Rs. 13.50 per Ordinary Share (previous year Rs.10 per Ordinary Share) (2002 - subject to deduction of income tax)	334.14	245.42
Income Tax on proposed dividend	—	25.03
l) Retained profit carried forward to the following year	325.87	282.50
	1469.22	1255.95

Proposed dividend for the financial year ended 31st March, 2002 includes dividend payable on the new Ordinary Shares of the Company, issued and allotted to the shareholders of erstwhile ITC Bhadrachalam Paperboards Limited, which rank pari passu in all respects with the existing Ordinary Shares of the Company, in accordance with the Scheme of Amalgamation of ITC Bhadrachalam Paperboards Limited with the Company.

FOREIGN EXCHANGE EARNINGS

Your Company remains committed to enlarging foreign exchange earnings. Earnings from exports create growing value for the Indian economy and also serve to benchmark the competitiveness of your Company's operations with global standards. The ITC Group's contribution to foreign exchange earnings over the last decade amounted to more than US$ 2 billion, of which over US$ 1.5 billion was accounted for by agri-exports, a measure of your Company's growing contribution to the rural economy. In this context, it is significant that during the year under review, your Company's earnings from agri exports registered a growth of 28% in dollar terms.

During the year under review, your Company, its subsidiaries and the ITC Welcomgroup hotel chain together crossed the Rs. 1000 crore milestone in foreign exchange earnings, of which

Rs. 948 crores represents direct earnings by your Company. Your Company's expenditure in foreign currency amounted to Rs. 435 crores, comprising purchase of raw materials, spares and other expenses at Rs. 327 crores, and import of capital goods at Rs. 108 crores.

The details of foreign exchange earnings and outgo are provided in Schedule 19 to the Accounts.

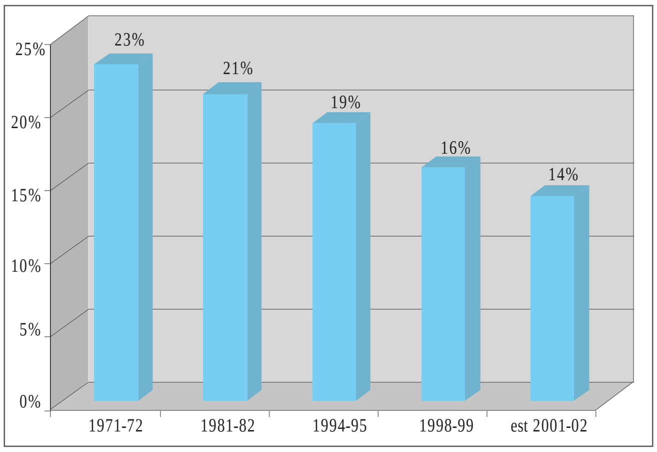
BUSINESS SEGMENTS

A. FAST MOVING CONSUMER GOODS (FMCG)

FMCG - Cigarettes

Tobacco consumers in India aspire to upgrade consumption to the cigarette format in line with international trends. Internationally, the pattern of consumption is predominantly in the cigarette format, accounting for over 90% of tobacco consumption. In India, however, the prolonged punitive and discriminatory taxation regime at Central and State levels has made cigarettes unaffordable to the majority of tobacco consumers. As a result, there is a growing migration to lower value forms of tobacco consumption. The share of cigarettes now stands at a mere 14% in the basket

Decline in the Share of Cigarettes in Tobacco consumption



of tobacco consumption in India, with per capita consumption of cigarettes in India being among the lowest in the world. Non-cigarette forms of tobacco products are largely produced in the unorganised sector characterised by lower rates of tax and ineffective enforcement. The tax yield per kilogram of tobacco consumed as cigarettes is more than 30 times that of equivalent consumption in other forms. Consequently, the tax base of the tobacco sector is rapidly shrinking. The shrinking domestic consumption base of cigarette type Virginia tobacco has also, over time, adversely impacted the export potential of the tobacco sector. The export prospects were further affected by the uncertainty and diminished market presence caused by the crop holiday in Andhra Pradesh. As a result, the export attractiveness of Indian tobaccos is caught up in a vicious cycle to the growing detriment of the tobacco farmers. This situation has been made worse by the growing inflow of contraband cigarettes that do not use Indian tobaccos.

Although non-cigarette forms of tobacco constitute nearly 86% of the tobacco consumption in the country, they contribute barely 10% of revenues to the Exchequer. Discriminatory taxation on cigarettes has led to progressive downgrading of consumption to lower value formats thereby shrinking the effective tax base. While tobacco consumption in the cigarette format has declined, the overall consumption of tobacco in the country continues to grow. It is therefore evident that high rates of taxes on cigarettes have neither imparted buoyancy to tax revenues from the tobacco sector nor curtailed overall consumption. It is now well established that sustainable tax buoyancy can be realised only from an expanding tax base. Moderation in rates of taxes, coupled with the aspiration of tobacco consumers to upgrade consumption, can multiply the share of cigarettes even in a shrinking basket of tobacco consumption. Consequently, the tax base of the sector can stand significantly enhanced, yielding for the Exchequer the much needed resources for urgent investments in social and physical infrastructure. This approach can realise the objective of multiplying resources even with reduced aggregate per capita consumption of tobacco.

The already high levels of Central taxation on cigarettes are exacerbated by a plethora of State taxes, under various nomenclature such as 'luxury', 'entry' and other taxes. Recognising the high degree of sensitivity of taxes on cigarette trade, the principle of uniform, single point taxation was embodied in the understanding between the Centre and the States at the National Development Council meeting of 1955, which substituted State sales tax on cigarettes with additional excise duties. The imposition of luxury and other taxes by many States

tantamounts to an infringement of this arrangement. The levy of luxury and other taxes is currently being contested by your Company at appropriate forums, including the Supreme Court, and your Company is hopeful of a positive outcome. The State level taxes impart a cascading effect to an already highly taxed commodity. Differential rates of such taxes distort trade and militate against the economic benefits of a larger common market. The need for single point taxation on a highly taxed commodity like cigarettes cannot be overstated.

During the year under review, State taxes on cigarettes were imposed in Goa, Uttaranchal, Jharkhand and Chattisgarh, while the rate of tax was increased in Rajasthan. Recently, an entry tax of 10% was imposed in Tamil Nadu, and a luxury tax of 20% in Delhi as part of the respective State Budgets. The levies in Tamil Nadu and Delhi have since been stayed by the appropriate High Courts. Similar stay orders had been granted in earlier years in respect of the levy of luxury tax in Kerala, Andhra Pradesh and Tamil Nadu. Your Company, by way of abundant caution, continues to provide for the disputed amounts in its Accounts. The aggregate provisions on this account as at 31st March, 2002 was Rs. 589 crores.

Punitive rates of taxation, loopholes in the regulatory environment and inadequate enforcement continue to fuel contraband trade. The menace of contraband and its detrimental effect on the economy is recognised the world over. In the Indian context, the absence of tax harmonisation among the SAARC countries, coupled with the inordinately high rates of domestic taxation, further aggravates such illegal tax arbitrage, resulting in a large and growing tax export. Smuggling of cigarettes into India is growing at an alarming pace estimated to be upwards of 20%. The loss to the national Exchequer is estimated to be in excess of Rs. 1,000 crores per annum. There are a number of avenues that facilitate the flow of contraband into India. Legal channels of duty free import are used as a cover by unscrupulous purveyors for supply to the contraband channel. The channels that carry such a risk of misuse are: duty free import under the Baggage rules, duty free shops at international airports, duty free imports by agents on behalf of embassies and naval ships, and duty free import of cigarettes for re-export. While various restrictions are being imposed on consumption of cigarettes, it is anachronistic to continue to permit such duty free imports. The policy related to import of duty free cigarettes therefore requires urgent revision, backed up by effective enforcement. In this regard your Company continues to make comprehensive recommendations to the Government.

The regulatory framework in respect of tobacco products needs to be purposeful, practical and equitable. Whilst seeking to reduce per capita consumption over time, regulations should not impede the maximisation of economic value per unit of consumption. Since most tobacco products other than cigarettes belong to cottage and unorganised sectors, new regulations and controls seriously disadvantage the cigarette segment as effective enforcement is not feasible for other forms of tobacco consumption. The regulatory framework, unless carefully crafted, can lead to the unintended consequence of placing Indian cigarette brands at a disadvantage in a globalising market on the one hand, and of encouraging downgrading of consumption on the other, thereby seriously eroding the economic contribution from the tobacco sector without fulfilling the objective of containing aggregate per capita consumption. While regulations prohibit Indian cigarette brands from being advertised on television, international brands such as Marlboro, Mild Seven etc. continue to be promoted through international motor racing events, freely beamed into India by sports and other television channels viewed largely by the young. Similarly, programmes uplinked from overseas continue to carry advertising of foreign cigarette brands. Such an unfair advantage to foreign brands would encourage imports, both legal and contraband, leading to an alarming flight of value that a developing economy like India can ill afford.

The Cigarettes and Other Tobacco Products Bill, 2001 seeks to modify the legal framework for regulation of the Tobacco Industry. This Bill was referred to a Standing Committee of Parliament, who after carrying out extensive hearings with the Industry constituents and other interest groups, have made their recommendations to the Central Government. Your Company as a responsible member of the Industry continues to represent to various concerned agencies with the objective of securing a uniform, fair, pragmatic and purposeful policy for the Indian industry.

Your Company continues to upgrade the quality of its products to provide the finest global standards to the Indian consumer. As a result of a steep increase of 15% in Central Excise taxation, together with the growing menace of contraband, the domestic industry declined by about 11%. Whilst your Company's volumes were also affected, its relative position was strengthened by improvement in market share. Your Company's brands now account for six out of the top ten cigarette brands in the country. Based on ongoing market research, two of your Company's cigarette brands were successfully extended into new and innovative flavour options. Ongoing upgradation of packaging has now resulted in most of the filter cigarettes being marketed in the internationally preferred hinged lid form of packaging. The prestigious India Kings brand was extended to a Lights version in the ultra premium beveled edge packaging. Encouraged by the initial response to the 5s form of packaging, several brands are being made available in this format.

Your Company's commitment to world-class standards in products and processes continues to receive national and international acknowledgement. With the Munger factory also having received the ISO 14000 accreditation, all the cigarette factories of your Company are now ISO 14000 certified. The factory in Bangalore was awarded the 'Prashansa Patra' for excellence in safety by the National Safety Council, while the Indian Association of Occupational Health conferred the award of 'Best Occupational Health Centre' on the factory in Kolkata.

The increasing levels of taxation and restrictive regulation continue to pose challenges to your Company's cigarette business. As stated earlier, nearly 86% of tobacco consumption in formats other than cigarettes represents a large potential market with tobacco consumers aspiring to upgrade consumption. A policy of moderation in taxes can fulfil this aspiration, thereby creating growing value for the economy from the tobacco sector even in a shrinking basket of tobacco consumption. In conclusion, growth prospects depend upon the rate of growth of per capita incomes of tobacco consumers, moderation in taxes, effectiveness of measures to curb the flow of contraband and policy measures that do not disadvantage the domestic cigarette industry. Given an enabling environment, your Company, with its strategy of continuous value addition to its brands, is well positioned to sustain its leadership role in the tobacco sector.

FMCG - Others

It is your Company's endeavour to continuously explore opportunities for long term growth by synergising and blending its multiple core competencies. In line with this strategy, your Company's multiple strengths are being leveraged across three product groups, namely, Lifestyle Retailing, Greeting Cards & Gifts and Branded Packaged Foods. Each of these businesses is at a nascent stage of development and accordingly the Segment Results set out in Schedule 20 to the Accounts reflect the impact of start-up costs.

Lifestyle Retailing

During 2001-02, your Company's Lifestyle Retailing business was engaged in rapidly scaling up operations. The international quality shopping experience and world-class product range are now available to discerning customers at 42 exclusive Wills Lifestyle stores across 35 cities in India. The business' internationally benchmarked quality earned industry recognition, with Wills Sport winning the 'Most Admired Brand Launch of the Year' award and Wills Lifestyle winning the 'Most Admired Exclusive Retail Chain of the Year' award at the Images Fashion Awards 2001.

This business is in its nascent stage in a competitive market. The primary focus is centred around consolidating capabilities and building market standing. Over time, it is the objective to gain a position of leadership in the growing domestic lifestyle market before taking the Wills Lifestyle brand overseas into the more developed international markets.

Greeting Cards & Gifts

During the year under review, the organised greeting cards market in India witnessed a significant correction in inventory and restructuring of business models by the traditional players. Your Company's Greeting Cards business expanded its reach significantly, with 'Expressions' greeting cards now available across 600 markets in over 10,000 retail outlets. In growing recognition of market acceptance, over 100 retail outlets already bear the 'Expressions' brand signage and logo in important locations across the country. The design capability of the business has been strengthened with the setting up of an in-house studio with creative talent drawn from across the country. A B2B web-based system

has been implemented to enhance supply chain fulfillment capability. During the year new partnerships were cemented with SOS Children's Villages of India for social cause cards, with Intercontinental Greetings, USA for designs and with Maple Leaf, Mumbai for speciality cards. The Greeting Cards & Gifts business intends to expand its product portfolio with other offers that complement greeting cards, by leveraging the competencies residing in the Paperboards, Paper & Packaging business segment of your Company.

Progressive cross-cultural exposure in India via the television and Internet, the proliferation of new modes of communication, together with growing disposable incomes, are expected to enhance the width of social contact, leading to a growth in paper cards and gifting products. Your Company's Greeting Cards & Gifts business, with its strengthening capability and distribution reach is expected to capture the emerging growth opportunities.

Branded Packaged Foods

Your Company views the branded packaged foods market as a significant opportunity for growth in the long term. Alongside the growing per capita incomes, the Indian food consumption habit is expected to progressively evolve from basic foods to value added products. Changing consumer preferences and heightened quality awareness, together with the expected reform of the regulatory framework and tax structures, will provide a fillip to the food processing industry. Your Company possesses many a strength to exploit this growth potential, namely the sourcing skills residing in its Agri Business segment, the vast FMCG distribution capability and the cuisine knowledge and trademarks of the Hotels business.

Branded foods is an emerging industry in India and constitutes a fraction of the entire food consumption in India. During the year, your Company made an entry in this industry segment by launching ambient stable ready-to-eat packaged foods under the brand 'Kitchens of India'. The premium products under this umbrella brand feature ethnic, signature recipes from ITC Welcomgroup. The market response has been encouraging. The gourmet foods category within branded foods is currently miniscule but carries a substantial growth potential over time. Export opportunities of these products are also being explored.

Your Company also acquired the "mint-o" trademark in the confectionery segment. The related pre-launch product development work is under way. In order to build a secure foundation for the growth of the Branded Foods business a state-of-the-art Research and Development Centre is being established at Bangalore. It is the objective of this business to establish its product brands across segments, and towards this end the business is at an advanced stage of readiness to launch a host of high-quality value added products.

B. HOTELS

Your Company continues its commitment towards establishing a leadership position for the ITC Welcomgroup chain. ITC Hotel Grand Maratha Sheraton & Towers and ITC One at the Maurya Sheraton are rapidly emerging as the pre-eminent business accommodation for the upmarket traveller. ITC Hotel Sonar Bangla at Kolkata is expected to commence commercial operations by end 2002, as planned. The ITC Grand Central project at Mumbai was held up pending statutory approvals. Barring unforeseen circumstances it is now likely to open towards the end of 2003. The eight acres of prime land acquired in Chennai is awaiting development at an opportune time to coincide with the expected growth in that market. The outlays on these projects and the new hotels amounting to Rs. 676 crores upto 31st March, 2002 are included in the Segment Assets set out in Schedule 20 to the Accounts.

It is well known that the Hotels and Tourism industry was severely affected by the unfortunate events of September and December 2001, and the general slowdown in the global economy. Your Company believes that the impact of these events would persist only in the near term and that the long term prospects of this business remain attractive. Hotels constitute an important part of infrastructure for the growth of trade, commerce and industry. The increasing globalisation of markets and the expected high rates of growth of the Indian economy will spur demand for high quality accommodation. Travel and tourism, already the largest industry in the world, has contributed significantly to the turnaround and growth of several economies in the world. This sector ranks amongst the highest employment generators per unit of investment and imparts a very large multiplier impact to the economy. It is heartening to note the

acknowledgement of this industry's potential in the Union Budget speech of the Finance Minister who stated that "Tourism constitutes a priority area in view of its beneficial impact on growth of employment, generation of foreign exchange...". The current foreign exchange earnings of this sector of about US $3 billion represents a fraction of its potential. Tourism is an industry of industries. It will prosper as all-round development takes place in the quality and scale of infrastructure. In the context of this potential, India is grossly under-roomed even in comparison with its much smaller neighbouring East Asian countries. Your Company's initial objective of completing its chain in the super deluxe segment in all key locations in India is well on its way to completion. It is companies such as yours, with a strong balance sheet and world-class human resource, that can contribute to the creation and sustenance of such capital intensive and long gestation infrastructure projects, so necessary to precede any prospects of rapid economic growth. The expanded ITC Welcomgroup chain, with competitively superior hoteliering capability, is well poised to attain industry leadership.

C. PAPERBOARDS, PAPER AND PACKAGING

Bhadrachalam Paperboards

The Scheme of Amalgamation of the erstwhile ITC Bhadrachalam Paperboards Limited (ITC Bhadrachalam) with your Company was sanctioned by the Hon'ble High Court at Calcutta and the Hon'ble High Court of Judicature of Andhra Pradesh at Hyderabad, on 24th January, 2002 and 8th February, 2002, respectively. Upon completion of the requisite formalities, the Scheme became effective on 13th March, 2002, and operative from 1st April, 2001. ITC Bhadrachalam thus became a Division of your Company under the nomenclature 'Bhadrachalam Paperboards Division'.

In consideration of the amalgamation, 20,96,982 fully paid-up Ordinary Shares of Rs.10/- each of your Company were issued and allotted on 6th May, 2002 to the members of ITC Bhadrachalam. The new Ordinary Shares rank pari passu with the existing Ordinary Shares of your Company. The paid-up Share Capital of your Company has consequently increased from Rs.245.41 crores to Rs.247.51 crores. Your Directors take pleasure in welcoming the shareholders, employees and all other stakeholders of ITC Bhadrachalam into the ITC family.

The amalgamation contributed an incremental Rs. 511 crores to your Company's Gross Turnover, excluding inter-divisional sales. Cash Profits from operations (PBDIT) increased by Rs. 101 crores as a result of the amalgamation, while Operating Profit (PBIT) grew by an incremental Rs. 59 crores. The aggregate increase in Capital Employed consequent to the amalgamation amounted to Rs. 281 crores only. The amalgamation enhanced the Earnings per Share of your Company, while simultaneously benefiting the shareholders of the erstwhile ITC Bhadrachalam Paperboards Limited, through accelerated returns from dividends.

During the major part of the year, the business environment for the paperboard segment was characterised by a global slowdown in demand, oversupply and the resultant fierce price competition. Notwithstanding these challenging conditions, the continued focus of the Bhadrachalam Paperboards Division (BPD) on technology upgradation, development and the related expansion of the market for value added products, and benchmarking of quality and operating standards to international levels, enabled a significant improvement in performance. Production during 2001-02 was 2,10,440 tonnes, at a capacity utilisation of 115%, compared to 2,05,817 tonnes in the previous year at a capacity utilisation of 113%. While overall sales, including inter-divisional sales, increased to 2,09,030 tonnes from 2,04,649 tonnes, the sale of value added products grew by nearly 18% to 35,600 tonnes from 30,233 tonnes in 2000-01, thereby resulting in an enriched product mix. BPD's enduring commitment to environment and energy management earned the Division a slew of awards including the ISO 14001 accreditation for its environmental management system from Det Norske Veritas and the Award for 'Excellence in Energy Management' from CII (Southern Region).

In continuing testimony to the world-class quality of BPD's products, exports were maintained at the previous year's levels despite a steep slowdown in international trade, thereby contributing Rs. 89 crores in foreign exchange. Foreign exchange conservation including substitution of imports amounted to nearly Rs. 250 crores. Such contribution is likely to grow in future as the volume of value added products

grow. BPD's products command a significant presence in the markets of Sri Lanka, Bangladesh, Malaysia, Iran, United Arab Emirates and South Africa. The export effort earned recognition, with the Division bagging Capexil's 'Special Export Award 2000-01', in the category of Paper and Paperboard products for the second consecutive year.

The Rs. 227 crore pulp mill modernisation and upgradation project at your Company's plant at Bhadrachalam is progressing as per schedule and is expected to be fully operational by October 2002. The commissioning of the project will significantly enhance the cost competitiveness of the Division and also enable it to achieve world-class environmental compliance standards. The Division's farm forestry programme, aimed at improving access to cost effective fibrous raw materials, made further progress with the distribution of nearly 3.4 million high yielding disease resistant "Bhadrachalam" clonal saplings to growers in the economic vicinity of the mill. With a view to achieving internationally benchmarked standards in operations, the Division has embarked upon an IT-based Supply Chain Management Project, in association with a solution provider of international repute. These initiatives are expected to further enhance the Division's international competitiveness in terms of quality, costs and environmental compliance.

The growing sophistication of the Indian consumer is expected to accelerate the demand for high quality packaging for branded goods and the resultant demand for value added paperboards. Further, it is estimated that the Asian region, excluding Japan, would become a net importer of paperboards over the next few years. The Division, with its growing competitive capability, is poised to capture the emerging growth opportunities. The integration of the paperboards business with your Company and the consequent synergistic benefits will further facilitate scaling up of operations, including the vital farm forestry programme, thereby further strengthening the prospects of your Company in the Afro Asian markets.

Speciality Papers

The Speciality Papers business continued its focus on creating value through product quality upgradation, increasing market presence of core products and strategic cost management, particularly in areas of energy costs and manpower productivity. Consequently, the business significantly improved its operating and financial performance. Imports constitute the major source of competition. This competition will intensify in the context of rapidly shrinking tariffs. This Division is therefore confronted with a major challenge to its competitiveness. The amalgamation of the Paperboards business has created a new opportunity for unleashing synergy among the pulp, paper and paperboards segments that would further support the competitiveness of the Speciality Papers business.

Packaging and Printing

During the year under review, the operations at the Tiruvottiyur factory in Chennai were disrupted on two occasions due to illegal strikes by workmen. As highlighted in the Report of the Directors last year, the first strike, which began in February 2001 was called off in May 2001. The second strike in November 2001 was marked by unprovoked violence by the workmen. Firm action by the management resulted in dismissal of the miscreants after due compliance with internal and statutory regulations. Workmen, in increasing numbers, voluntarily called off their strike from 21st January, 2002 and returned to work after agreeing to abide by statutory regulations and the Memorandum of Agreement signed between the workmen and the management. Uninterrupted supply of packaging to your Company's cigarette business was secured through the continuing operations at the Munger factory and outsourcing the balance requirement largely from international manufacturers.

Continuous technology upgradation and value added services to customers are aimed at sustaining the status of the Packaging and Printing business as a preferred supplier of premium printed paperboard-based packaging for the FMCG industry in India, particularly for cigarettes, liquor, foods and personal care products. Both factories at Munger and Tiruvottiyur are certified to ISO 9000 standards of Quality and ISO 14000 standards of Environment Management.

The business is thus actively engaged in leveraging its world-class capability in premium, paperboard packaging to expand its product base in the domestic and export markets.

D. AGRI BUSINESS

Cigarette Leaf Tobacco

As stated in the Report of the Directors last year, the Tobacco Board declared a Crop Holiday in respect of the 2001 Andhra Crop. Despite this constraint, and the continuing oversupply situation in the global markets, your Company was able to maintain nearly the same levels of exports as that of 2000-01. As also stated in the Report last year, your Company had, as a measure of assistance to the farmers, purchased leaf tobacco well in excess of requirements in 2000-01. Consumption of tobacco for the manufacture of your Company's cigarette brands during 2001-02 was therefore largely from inventories. The Segment Results in Schedule 20 to the Accounts reflect this situation.

Your Company entered into a strategic collaborative agreement with the Tobacco Board (Ministry of Commerce, Government of India) to establish a 'Tobacco Farmers' Portal'. Christened 'Pogaku Vedika' in Telugu and 'Tambaku Vedike' in Kannada, the website will provide information to the farmers in their own language, on modern farm practices, integrated pest management, curing and grading techniques, post-harvest product management and the latest prices prevailing in international markets and India's Tobacco Auction Platforms. The website will also provide customised information to an individual farmer. It is expected that the Portal would cover about 150 villages in Andhra Pradesh and Karnataka over the next three years.

Several initiatives were undertaken to further strengthen the competitive capability of your Company's leaf tobacco business. The portfolio of product offers to customers is being enlarged to align product mix with emerging requirements. A web-based Customer Relationship Management initiative is being developed to provide value added services to global customers. With a view to improving the competitiveness of Indian tobaccos in global and domestic markets, and to improve economics of the Indian tobacco farmer, your Company continues to strengthen its crop development and related services at the farm level. The Research Center at Rajahmundry is engaged in varietal research through its plant breeding programme to develop leaf tobacco varieties with export potential. These initiatives, together with the superior threshing capability of the state-of-the-art leaf tobacco processing lines at Chirala, would not only improve your Company's export competitiveness but also support the quality enhancement objective of your Company's cigarettes business.

Agri Exports

The creative harnessing of Information Technology across the value chain from the farm to the foreign customer enabled your Company to substantially increase its export earnings. Agri exports of the International Business Division (IBD) grew substantially by over 48% during 2001-02 (Rs. 535 crores against Rs. 361 crores last year), despite the near stagnation of aggregate exports from the country. The Division's IT-based CRM initiative represents a trend-setting customer-centric business model that vindicated its utility even in the commodity business by efficiently servicing the specific needs of identified customers.

On the supply side, the Division drew upon the competencies residing in your Company's Information Technology business to create a unique click-and-mortar capability christened e-Choupal. The e-Choupal initiative leverages Information Technology to: (a) deliver real-time information and customise knowledge to improve farmers' decision making ability to align farm output to market demands and secure quality, productivity and improved price discovery (b) aggregate demand in the nature of a virtual producers' cooperative to access high quality farm inputs and knowledge at the lowest cost and (c) set up a direct marketing channel virtually linked to the mandi system for the purposes of price discovery, yet eliminating wasteful intermediation, multiple handling and thus reducing transaction costs and making logistics efficient and cost effective. Through virtual clustering, these e-Choupals are re-organising the farm supply chain for more cost effective sourcing using the physical transmission capabilities of the existing intermediaries, yet disintermediating them from the information flow and market signals.

The benefits from e-Choupals, which operated at a critical mass scale for the first time during the soya season of 2001-02, testify to the assumptions behind efficiency gains through virtual integration of the Division's supply chain. Encouraged by the results, this model is being rapidly scaled up and

replicated across other geographies and commodities where your Company has nurtured deep rural linkages for over a decade. Starting with six pilot choupals in June 2000, today this strategic initiative has already become rural India's largest internet-based intervention of its type, reaching out to more than half-a-million farmers in 4500 villages through 770 choupals in the States of Madhya Pradesh, Karnataka, Andhra Pradesh and Uttar Pradesh.

Your Company's strategic intent seeks to enhance farm productivity manifold and to create a farming metamarket across India through e-hubs. These e-hubs will service the information needs of clusters of villages, as well as create the infrastructure to facilitate efficiency in purchase and sale of high quality inputs and farm produce. This e-infrastructure can also be used to create a unique channel for the two-way flow of a range of goods and services in and out of rural markets, thereby serving as a source of future growth in revenues.

NOTES ON SUBSIDIARIES

The following may be read in conjunction with the Consolidated Financial Statements enclosed with the Accounts, prepared in accordance with Accounting Standard 21 and the Statement pursuant to Section 212 of the Companies Act, 1956.

ITC Hotels Limited (ITCHL)

ITCHL derives over 60% of its income from properties in tourist locations and from fees related to consulting, operating and marketing services. Incomes are generally weighted towards the second half of a financial year, which represents the peak tourist season. Foreign arrivals in October and November 2001 fell steeply by over 25 % indicative of the acute adverse impact on the industry, particularly in respect of tourist locations. Consequently, ITCHL recorded a 7% decline in overall occupancy. Gross income for the financial year ended 31st March, 2002 was Rs. 113.41 crores as compared to Rs. 134.57 crores in the previous year, with a loss of Rs. 3.12 crores (previous year Profit of Rs. 12.69 crores). In view of the loss, the Board of Directors of ITCHL has not recommended the payment of dividend for the financial year 2001-02.

The Hotels business continues to contribute significantly to foreign exchange earnings. The ITC Welcomgroup chain's foreign exchange earnings for the year 2001-02 amounted to Rs. 189.59 crores, comprising Rs. 90.69 crores earned by hotel properties of ITC Ltd., Rs. 49.58 crores earned by the hotels owned/leased by ITCHL and Rs. 49.32 crores by other properties of the chain. The Hotels business is also an important constituent of infrastructure, essential to achieve overall economic growth objectives. It is in this context that your Company believes that the impact of the events of 2001 would persist only in the near term and that the long term prospects of this business remain attractive. With this perspective, ITC Welcomgroup remains committed to its strategy of providing a superior and world-class product and service offering. Towards this end, planned expansion, renovation and refurbishing programmes are progressing satisfactorily to sustain and consolidate market standing, despite the strain on current financial performance.

As a result, ITC Welcomgroup, particularly its flagship ITC Hotel Maurya Sheraton & Towers, continues to be patronised by world leaders. During the year, amongst others, Mr. Tony Blair, the British Prime Minister and Mr. Colin Powell, US Secretary of State, were distinguished guests of ITC Welcomgroup hotels. In further testimony to ITC Welcomgroup's superior hoteliering expertise, the ITC Hotel Maurya Sheraton & Towers won the Gold Award from the Hospitality Sales & Marketing Association International, USA (HSMAI) while ITC Hotel Grand Maratha Sheraton & Towers campaign was conferred with two Silver Awards - HSMAI 2001.

The re-branding exercise completed last year enabled the effective positioning of the product and service offerings of the ITC-Welcomgroup chain across its different segment of consumers. The WelcomHotel brand was strengthened during the year with the induction of Marriott WelcomHotel, New Delhi.

ITC Infotech India Limited

As stated in the Report of the Directors last year, your Company restructured its Information Technology business into a wholly-owned subsidiary, in accordance with the approval of the shareholders. The restructuring plan was completed during the

year under review, whereby ITC Infotech India Limited (I3L) acquired:

- the entire Share Capital of ITC Infotech Limited, UK (I2B) comprising 6,85,815 Ordinary Shares of GBP 1.00 each at GBP 1.50 per Ordinary Share from your Company at a total consideration of Rs. 6,86,85,837/- ; concurrent with the transfer of shares, I2B became a wholly owned subsidiary of I3L with effect from 19th June, 2001.
- the entire Share Capital of ITC Infotech (USA) Inc., (I2A) comprising 2000 Common Shares of US$ 100 each from I2B at an aggregate consideration of US$ 400,000; concurrent with the transfer of shares, I2A became a wholly owned direct subsidiary of I3L with effect from 24th May, 2001.

I3L also invested US$ 2 million in the equity share capital of I2A by subscribing to 20000 Common Shares for cash at US$ 100 per share.

ITC Infotech India Limited (I3L) was confronted with severe adverse market challenges soon after commencement of business. The slowdown in the US economy and the consequent curtailment of IT spends severely affected the Indian IT sector. Under these circumstances I3L had to bear the costs of human resources and infrastructure without commensurate revenues.

Early signs of recovery in the US market, coupled with the growing trend amongst US companies of converting on-site software development work to offshore assignments, represent significant opportunities for leveraging the world-class development centres and human capital of I3L. US continues to be the largest market for IT services and it is the strategic intent of I3L to build business in that market. Accordingly, the Board of I3L approved an investment of upto US $ 2.5 million in the equity Share Capital of I2A, for cash at par, subject to the approval of the Reserve Bank of India and such other approvals as may be necessary.

Barring unforeseen circumstances, the business is expected to make early breakthroughs and carve a niche for itself.

Russell Credit Limited

During the year, the Company purchased 17,250 (0.06%) equity shares of ITC Hotels Limited. The Company's Counter Offer to the shareholders of VST Industries Limited, in accordance with the SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 1997, pursuant to a Public Offer made by an Acquirer, closed on 13th June, 2001.

During the currency of the Public Offer, a suit was filed by an individual in the Hon'ble High Court at Calcutta, seeking an injunction against the Company's offer. The Hon'ble High Court at Calcutta while refusing to grant such an injunction, instructed that the acquisition of shares pursuant to the Counter Offer by the Company and the other Acquirer, would be subject to the final Order of the Hon'ble High Court, which is awaited. Similar suits filed by an individual and two shareholders, in the Hon'ble High Courts of Delhi at New Delhi and Andhra Pradesh at Hyderabad, were, however, dismissed by the respective High Courts.

The Company holds 15,45,142 equity shares of VST Industries Limited, as at close of business on 31st March, 2002.

Gold Flake Corporation Limited

During the year, the Company changed its status from a Deemed Public Company to a Public Limited Company with effect from 12th September, 2001. The Company also changed its name from All India Tobacco Company Limited to Gold Flake Corporation Limited, with effect from 9th January, 2002.

Wills Corporation Limited

During the year, the Company changed its status from a Deemed Public Company to a Public Limited Company with effect from 6th August, 2001. The Company also changed its name from Elan Enterprises Limited to Wills Corporation Limited, with effect from 13th February, 2002.

Landbase India Limited

As stated in the Report of the Directors last year, your Company acquired 70% of the equity capital of Landbase India Limited (LBI). The equity stake was purchased from International Travel House Limited (Travel House), an associate of your Company. LBI had developed a Jack Nicklaus signature golf course and a premium condominium complex, widely acknowledged as among the finest in the country. It became increasingly difficult for Travel House, with its limited financial resources, to

support the long gestation projects of its subsidiary, LBI. Faced with the options of either closing the business or finding a partner, Travel House approached your Company with an offer to sell its stake. The development of golf resorts present attractive long term prospects in view of their growing popularity the world over. Golf based resorts also complement the hotels business of your Company. It is in this context that your Company supported the restructuring of LBI. Accommodation facilities are being developed to transform the golf course into a destination resort taking advantage of its attractive location outside Delhi.

BFIL Finance Limited

Consequent to the amalgamation of ITC Bhadrachalam Paperboards Limited, BFIL Finance Limited became a subsidiary of your Company. BFIL Finance Limited continued to focus on recoveries. During 2001-02, the Company collected Rs. 468.25 lakhs (including by way of property settlements) and used the proceeds, inter alia, to repay Rs. 156.39 lakhs to banks. As a result, the Company posted a profit of Rs. 659.24 lakhs for the year ended 31st March, 2002 against a loss of Rs. 600.20 lakhs in the previous year.

ITC Global Holdings Pte Ltd.

Since 8th November, 1996, the Judicial Managers have been conducting the affairs of ITC Global, in the interest of ITC Global's creditors under the authority of the High Court of Singapore.

The Judicial Managers have indicated to your Company that the outstanding dues of ITC Global to its creditors were likely to be around US$ 50 million (apart from the debt of approximately US$ 10 million owed by ITC Global to ITC and for which your Company has already filed its formal Proof of Debt to the Judicial Managers) and had sought your Company's financial support to ITC Global to enable it to settle with its creditors. Your Board does not accept any liability in this regard and has accordingly advised the Judicial Managers.

However, without prejudice, and with the intention of preserving the goodwill of the international banking and other investing communities and thereby to subserve your Company's future business interests in a fast-globalising economy, your Company proposed a goodwill assistance of US$ 26 million to ITC Global. This would be subject to your consent and all necessary approvals from all Government and other authorities, both at Singapore, and in India, and also subject to concluding a comprehensive Agreement between your Company and the Judicial Managers in this regard.

The High Court of Singapore had ruled that, "the Company (i.e. ITC Global) is not required to conduct any audit of the Company during the period of judicial management of the Company". As a consequence of the aforesaid Order, your Company cannot attach the audited accounts of ITC Global and its subsidiaries for the year ended 31st December, 2001, this position having also prevailed in the previous five years. Approval in this regard is awaited from the Central Government granting exemption from the provisions of Section 212 of the Companies Act, 1956. Your Company shall, as soon as such accounts are received, circulate the same to the Members of the Company.

NOTES ON TRADE INVESTMENTS

Surya Tobacco Company (P) Limited

In spite of a slow-down in the Nepalese economy the cigarette industry volumes grew at 12% with resultant Government revenues from the industry increasing by 21%. The Company continues to be the single largest private sector contributor to the Nepalese Exchequer accounting for more than 3% of the total revenue collected by His Majesty's Government. The spread of insurgent activities has impacted the Company's supply chain as well as posed threats to the security of its personnel and property.

Despite difficult trading conditions, the Company's performance for the year ended 15th July, 2001 reflects a 17% increase in Gross Turnover with a 26% increase in Profit after Tax. Dividend for the year was increased to 100% as compared to 80% last year. The Company's brands continue to occupy leadership positions in their respective segments, resulting in a value share of the cigarette industry of around 64%.

Your Company has received the RBI's approval for investing in a further 10% of the share capital of Surya Tobacco Co. (P) Limited from its Nepalese Promoters.

Real Estate

There is nothing significant to report in this area. Your Company expects to redeem its investments over time as and when economic revival makes it attractive to develop the substantial real estate assets.

ITC Filtrona Limited

ITC Filtrona retained its Filter business volume despite a major drop in the cigarette industry in 2001. The Company consolidated its leadership position in the market, with volume share increasing from 55% to 58%. The gross turnover for the year ending 31st December, 2001 at Rs. 65 crores declined by 3% compared to the previous year. The Company recorded an 8.5% growth in operating profits. The Board of Directors of ITC Filtrona recommended a dividend of 25% for the second consecutive year.

The Company's factory in Bangalore is the first Cigarette Filter factory in the world to receive the ISO 9001: 2000 series certification. The Company continues to focus on business solutions to remain competitive in serving the Indian Cigarette Industry.

AUDIT AND SYSTEMS

Your Company believes that internal control is a necessary concomitant of the principle of governance that freedom of management should be exercised within a framework of appropriate checks and balances.

Your Company's well established internal audit process continuously monitors the status of operating systems and policies and compliance thereof, as also the quality of the management decision-making process across its businesses. Efforts continue to be directed at securing adequacy and effectiveness of laid down systems and policies, particularly in the newer business initiatives. In the increasingly networked IT environment of your Company, validation of IT security received focussed attention of the internal audit team whose members are regularly trained on contemporary audit techniques and methodologies.

The Audit Committee of your Board met seven times during the year. It reviewed the adequacy and effectiveness of the internal control environment and monitored implementation of internal audit recommendations. It also actively engaged in overseeing financial disclosures and in reviewing your Company's risk management policies.

HUMAN RESOURCE DEVELOPMENT

In the multi-business context of your Company, the focus of human resource development is to create world-class distributed leadership within the organisation as the primary means of bringing about transformational change and securing competitive advantage. Your Company's endeavour, therefore, is to nurture an empowering organisation culture that inspires people to consistently deliver quality performance and rewards them with opportunities for learning, competitive remuneration and rapid career advancement. As a consequence, appropriate systems and processes are continuously refurbished to attract, develop and retain talent. Your Company continues to harness opportunities for manpower development by networking with national and international human resource development agencies.

Your Company also recognises that competitive advantage stems from nurturing specialisms unique to each business. Specific initiatives are therefore being implemented to enhance the quality of specialist skills residing in various businesses as well as to induct such unique skills in identified areas, particularly in respect of new businesses.

The spirit of collaboration, partnership and commitment to the shared purpose of creating enduring value for stakeholders enabled your Company to achieve improved productivity at all levels while simultaneously fulfilling employee aspirations.

Your Company is well resourced with nearly 13,000 committed employees. Your Directors record their sincere appreciation of their dedicated efforts.

ENVIRONMENT, OCCUPATIONAL HEALTH AND SAFETY

Your Company continues to accord priority to Environment, Occupational Health and Safety (EHS) with a commitment to achieve and sustain the highest international standards.

Focussed attention to this vital area has resulted in an 80% reduction in the number of Lost Time Accidents and a 75% reduction in Man-Days Lost over the last five years. Thirteen units of ITC and its

Group Companies have already been accredited with ISO 14001 certification and seven units are currently in various stages of the accreditation process.

Your Company recognises the importance of training and EHS awareness at all levels of the organisation. Several training programmes were conducted both by your Company's own EHS experts and by outside faculty. Your Company implemented a number of significant EHS initiatives during the year including reduction of CO2 releases to the atmosphere, harvesting rainwater, conservation of water and energy, and afforestation.

The Legal and Safety Audit Committee of your Company closely monitors statutory compliance and that of Company policies on EHS.

In recognition of your Company's EHS initiatives several awards continue to be conferred on its units as detailed earlier in this Report.

EXCISE

In the Report & Accounts of the last fifteen years, your Directors had mentioned that, consequent upon a search and seizure conducted by the Excise Authorities, a Show Cause Notice dated 27th March, 1987 was issued to your Company for alleged evasion of Excise Duty during the period from 1st March, 1983 to 28th February, 1987. The charge was based on the premise that your Company allegedly colluded with retailers in selling cigarettes at a price higher than that printed on the package, which was the basis of levying duty during the aforesaid period. Your Company and its contract manufacturers were therefore asked to Show Cause as to why they should not be required to pay duty at the higher slab corresponding to the actual price alleged to have been charged by the retailers, amounting to an unprecedented sum of Rs. 803.78 crores besides other penalties in law.

The hearing of the Show Cause Notice proceeded before the Commissioner of Central Excise, Delhi, who, by an Order dated 29th December, 1995 confirmed a differential excise duty demand of Rs. 681.54 crores against your Company and also levied a penalty of Rs. 66.50 crores on it. Personal penalties aggregating to Rs. 3.15 crores were also imposed on six ex-Directors of your Company. The Commissioner also confirmed a demand of Rs. 118 crores on seven Contract Manufacturers of your Company and levied penalties on them aggregating to Rs. 7 crores.

Your Company preferred an Appeal to the Customs Excise and Gold (Control) Appellate Tribunal (CEGAT) against the Commissioner's Order dated 29th December, 1995 as also an Application for dispensing with the pre-deposit of the differential duty amount of Rs. 681.54 crores and penalty amount of Rs. 66.50 crores, and for stay. Similarly, all six ex-Directors of your Company, as well as the Contract Manufacturers, preferred Appeals to the CEGAT as also Applications for waiver of pre-deposit of the differential duty and penalty amounts, and for stay.

In respect of the Contract Manufacturers the CEGAT directed that the pre-deposit of the entire amounts of differential duty and penalty should be dispensed with in their case. In the case of the six ex-Directors also directions for dispensing with the pre-deposit of the penalties were given by the CEGAT.

Further by its Order dated 15th March, 1996 the CEGAT directed your Company to deposit Rs. 110 crores on or before 30th April, 1996 and a further amount of Rs. 240 crores in eight equal monthly instalments commencing 1st June, 1996. The requirement of pre-deposit of the balance differential duty amount of Rs. 331.54 crores and the entire penalty amount of Rs. 66.50 crores was waived, subject to the conditions regarding payment of instalments as indicated above and also furnishing of Bonds. In compliance with the above Order of the CEGAT, your Company deposited with the Excise Collectorates having jurisdiction over five factories of your Company, a total amount of Rs. 350 crores, and also furnished a Bond as directed.

Thereafter, the CEGAT heard the appeals between February and May 1998, and by its Order dated 4th September, 1998 :-

a) set aside the demand of differential excise duty on the Contract Manufacturers of ITC ;

b) set aside the penalties imposed on ITC, six of its ex-Directors and its Contract Manufacturers ;

c) set aside the quantification of the excise duty demand on ITC ; and

d) remanded the matter to the Adjudicating Authority for fresh quantification of duty

demand on ITC in accordance with the guidelines provided in the Order and after giving ITC an opportunity of personal hearing.

Since your Company believes that it has no legal liability to pay any differential excise duty, and the Order of the CEGAT is, therefore, unsustainable in law, the Company filed an Appeal in the Supreme Court. The Excise Department also filed Appeals challenging the CEGAT's Order. At the admission stage, the Supreme Court, on 15th January, 1999 passed an Order to the following effect :-

a) The Appeal filed by the Company against CEGAT's Order holding the Company liable for differential duty has been admitted.

b) The Appeal filed by the Excise Department in respect of the Company has been admitted; adjudication proceedings for fresh quantification of differential duty in accordance with CEGAT's Order may continue, but no orders pursuant to such proceedings shall be passed without the leave of the Supreme Court.

c) Excise Department's appeals in respect of Contract Manufacturers have been admitted only on the limited question of their liability, if any, upto six months preceding the Show Cause Notice.

d) Excise Department's appeals challenging the quashing of penalties imposed on the former Directors have been dismissed.

A few days before the CEGAT passed its Order on 4th September, 1998 the Excise Department filed criminal complaints on 30th August, 1998 in the Economic Offences Courts at Meerut, Bangalore, Mumbai, Patna and Kolkata against the Company and the six ex-Directors on the basis of Order of the CCE, Delhi dated 29th December, 1995. These prosecutions are being contested by your Company and the individuals.

On applications moved by the ex-Directors, the proceedings before the Bangalore, Kolkata and Meerut Courts have been stayed by the High Court of Karnataka, the High Court of Calcutta and the Allahabad High Court respectively.

Prior to March, 1983, duty on cigarettes was on ad valorem basis. In the light of the decision of the Supreme Court in the case of Voltas in the year 1973, your Company filed Price Lists for cigarettes manufactured at its various factories claiming abatement of certain Post-Manufacturing Expenses (PME). As disputes arose as to the maintainability of the claim for abatement of PME made by the Company, the Price Lists were approved on a provisional basis. During the period 1975 to 1985, various Show Cause Notices were issued in respect of Bangalore, Saharanpur and Munger factories of the Company alleging inter alia that additional margins were given by the Company to the wholesale dealers to meet certain expenses which should form part of its price to the wholesale dealers. All such Show Cause Notices were assigned to the Director General of Inspection, Customs & Central Excise, New Delhi ('DG') who passed his Order on 10th April, 1986. Although the differential duty payable under the DG's Order was determined on an admitted interpretation of Rule 5 of Central Excise (Valuation) Rules (which interpretation has since been upheld by the CEGAT and affirmed by the Supreme Court), the Excise Department raised doubts on such interpretation and issued revised demands under the DG's Order, in respect of Bangalore, Munger and Saharanpur factories. The Bangalore demand for Rs. 27.58 crores was set aside by the Commissioner (Appeals), Bangalore, by his Order dated 22nd November, 1999 against which the Department has filed an Appeal in CEGAT, Chennai. The Saharanpur demand of Rs. 80.30 crores was confirmed by the Commissioner (Appeals) to the extent of Rs. 76.03 crores as against which your Company has filed an Appeal before CEGAT, Delhi, which is pending. Since your Company had to make a pre-deposit of Rs. 20 crores for hearing of its Appeal by the Commissioner (Appeals), CEGAT has stayed recovery of the balance amount of Rs. 56.03 crores pending disposal of Company's Appeal before it. By an Order dated 28th November, 2001, a three-member Bench of the CEGAT to whom the Appeal was referred, has answered all questions arising in the Appeal in favour of your Company and in view of this decision of the CEGAT the demand for Rs. 76.03 crores is no longer sustainable. The formal Order of the CEGAT is, however, awaited. Meanwhile, the Excise Department has filed an appeal against the CEGAT's Order dated 28th November, 2001, and this appeal is pending admission in the Supreme Court. As regards the Munger factory the revised demand of Rs. 8.29 crores under the DG's Order was dropped by the Commissioner of Central Excise,

Patna vide his Order dated 20th September, 2001. As mentioned in the Report of the Directors for 1987 and thereafter, the Excise Department, during 1987 and 1988, again reopened some of the issues already settled by the Order of the DG, by issuing fresh Show Cause Notices in respect of the period upto 28th February, 1983. The Notices proposed to recover differential duties of Rs. 43.88 crores (for Munger factory), Rs. 143.22 crores (for Bangalore factory), Rs. 31.05 crores (for Kidderpore factory), Rs. 41.51 crores (for Parel factory) and Rs. 26.43 crores (for Saharanpur factory). All these Notices were assigned to the Commissioner of Central Excise, Delhi, for investigation and adjudication. Your Company has, apart from denying any liability as claimed in the Notices, challenged the maintainability of all these Show Cause Notices. On an Appeal filed by your Company against an Order of the Commissioner, rejecting the Company's contentions on the issue of maintainability, the CEGAT, Chennai, by its Judgement dated 13th January, 2000 upheld the contention of your Company and has set aside the Bangalore Show Cause Notice for Rs. 143.22 crores with the direction, inter alia, that the allegations made therein should be considered by the Assessing Authority while finalising the assessments in respect of the Bangalore factory, which has been your Company's contention all along. By an order dated 21st July, 2000, the Supreme Court has admitted the appeal of the Department and stayed the order of CEGAT, Chennai. Your Company's Appeals against similar Orders relating to the Show Cause Notices issued in respect of Munger and Parel factories are pending before CEGAT, Kolkata and Mumbai respectively. As regards the Show Cause Notice in respect of Saharanpur factory, your Company has filed a Writ Petition in the Delhi High Court which is pending. In accordance with the law laid down by the CEGAT on interpretation of Rule 5 of the Central Excise Valuation Rules, and upheld by the Supreme Court, the exorbitant amounts set out in the pending Show Cause Notices referred to above would stand virtually extinguished. In fact while the Company's appeal against the Show Cause Notice relating to Parel factory for Rs. 41.51 crores is pending before CEGAT, Mumbai, the Commissioner of Central Excise, Delhi by his Order dated 29th December, 2000 has confirmed the demand for Rs. 5.96 crores or such higher or lower amount as may be redetermined by the jurisdictional officer. By the same Order the liability of the two Contract Manufacturers were roughly determined at Rs. 83 lakhs and Rs. 41 lakhs as against the differential duty of Rs. 6.65 crores and Rs. 2.89 crores respectively proposed in the said Show Cause Notice. Your Company and also the Contract Manufacturers have, however, filed separate Appeals in CEGAT, Mumbai against the said Order of the Commissioner alongwith applications for stay which are pending. The Department has also filed an Appeal against the said Order of the Commissioner, Delhi before CEGAT, Delhi which is pending.

So far as the Kidderpore factory is concerned the Notices were set aside and all pre-March 1983 valuation disputes stand resolved pursuant to the finalisation of the provisional assessments.

As mentioned in the Report of the Directors in earlier years, the Excise Authorities were also persisting with two more Notices, issued in 1983 and 1984 for a total sum of Rs. 57.66 crores by the Parel Authorities on the question of treatment of Security Deposit for excise valuation, in spite of this issue having been concluded by the Order of the DG. By an Order dated 30th September, 1999, the Commissioner of Central Excise, Delhi has confirmed the demand in respect of these two Notices for only Rs. 75.27 Lakhs which amount has to be adjusted with the equivalent amount already paid by your Company pursuant to the DG's Order. By the said Order, a penalty of Rs. 5 lakhs has also been imposed on your Company. The Company has filed an Appeal before CEGAT, Mumbai against the said Order dated 30th September, 1999.

As reported in the 1997 Report of the Directors, the Commissioner of Central Excise, Delhi, had directed the Departmental Authorities to finalise the assessments in respect of Bangalore, Parel and Munger for the pre-March 1983 period. The purported Order of finalisation of assessments dated 15th January, 1998 relating to the Bangalore factory for Rs. 23.82 crores was challenged before the Commissioner (Appeals), Bangalore, who, by his Order dated 20.11.99 allowed the Company's Appeal and remanded the matter for de novo adjudication setting aside the impugned Order. Pursuant to this, the Assistant Commissioner, Central Excise, Bangalore by his Order dated 26th July, 2001 has purported to have finalised the assessment for the above period and by adding various elements, that too not to price of the cigarettes declared but to the assessable

value thereof, has demanded differential duty of about Rs. 583 crores in disregard of the binding directions and judgements of Collector (Appeals), CEGAT and also of the Supreme Court in your Company's own cases. Since no further differential duty is legally payable for the cigarettes manufactured and cleared from the Bangalore factory during the period 01.10.75 to 28.02.83, your Company has filed an Appeal against the said Order before the Commissioner (Appeals). On the Company's application for stay of the demand, the Commissioner (Appeals) by his Order dated 26th March, 2002 has directed a pre-deposit of Rs. 20 crores subject to which the recovery of the balance amount of the differential duty will remain stayed during the pendency of the Appeal. The Company has made the pre-deposit of Rs. 20 crores and the hearing of the Appeal is in progress. Orders of finalisation of assessments were also passed by the Departmental Authorities in respect of the Munger and Parel factories, and differential duty of Rs. 9.28 crores and Rs. 1.38 crores were demanded respectively. Your Company's Appeals against the said Orders of finalisation of assessments of Munger and Parel factories have been disposed of by remanding the matters for fresh hearing. While proceedings pursuant to remand have not been completed in respect of cigarettes manufactured and cleared from the Munger factory, the Deputy Commissioner of Central Excise, Mumbai I by his Order dated 22nd September, 2000 has finalised the assessments relating to Parel factory between 1st March, 1973 to 28th February, 1983. In terms of the said order, a sum of Rs. 87.83 lakhs is shown to have been paid in excess upon adjustment of duty liability for the said period. The Department's Appeal against the said Order of finalisation is pending before the Commissioner (Appeals), Mumbai.

Although your Company in a spirit of settlement, paid the differential Excise Duty that arose out of the Order of the Director General as early as in March, 1987, and although the Excise Department's aforesaid Demands had either been quashed or stayed, the Collectorates in Meerut, Patna and Bangalore, during the year 1995, filed criminal complaints in the Special Court for Economic Offences at Kanpur, Patna and Bangalore, charging your Company and some of its Directors and employees who were employed with your Company during the period 1975 to 1983 with offences under the Central Excises & Salt Act, 1944, purportedly on the basis of the Order of the Director General dated 10th April, 1986. Your Directors are advised that no prosecution would lie on the basis of the aforesaid Order of the Director General dated 10th April, 1986. In fact, the Special Court in Kanpur, which initially took cognisance of the complaints, subsequently, on applications filed by the individuals concerned, discharged them. Similar applications were filed by the individuals in the Special Court in Patna, which are pending. On applications moved by the individuals concerned, the Karnataka High Court, by its Order dated 31st August, 2001 quashed the complaint in so far as the said individuals are concerned. Following the Order passed by the Karnataka High Court, the Magistrate has quashed the Complaint by his Order dated 28.9.01.

The Collector of Central Excise, Bangalore had issued a Show Cause Notice and after adjudication a Demand Notice was received on 12th August, 1988 for Rs. 2.4 crores, including a penalty of Rs. 1.2 crores, on account of alleged variation from the approved surface design of one of your Company's brand packs. On Appeal, the CEGAT, Delhi, passed an Order effectively bringing down the duty liability to Rs.1.5 lakhs and the penalty to Rs.1 lakh. In the opinion of your Directors even this Order is unsustainable. Your Company, therefore, filed an Appeal in the Supreme Court against the above Order, which was admitted and is now pending. While the appeal before CEGAT was pending, the Department filed a criminal complaint against the Company and some of its Directors and Managers before the Magistrate Court, Bangalore. By his Orders dated 27th July, 2001 and 15th February, 2002 the Magistrate discharged the Company and the individuals.

In all the above instances, your Directors are of the view that your Company has a strong case and the Show Cause, the Demand Notices and the Complaints are not sustainable.

Since your Company is contesting the above cases and contending that the Show Cause, the Demand Notices and the Complaints are not sustainable, it does not accept any liability in this behalf. Your attention is drawn to the Note 19(vii) in the Schedules to the Accounts and Note 19(v) in the Schedules to the Consolidated Financial Statements.

RECOVERY OF DUES FROM THE CHITALIAS AND ENQUIRY BY THE ENFORCEMENT DIRECTORATE

You are aware that your Company had secured from the District Court of New Jersey, U.S.A., a decree for US$ 12.19 million together with interest and costs against Suresh and Devang Chitalia of U.S.A. and their companies, and that the Chitalias had filed Bankruptcy Petitions before the Bankruptcy Court, Orlando, Florida, which are being contested by your Company.

As detailed in the Report of the Directors last year, the Chitalias made an Offer of Judgement proposing that they would submit to a judgement of the Bankruptcy Court disallowing their applications to be discharged as bankrupt provided your Company withdrew its objections to their claims for exemption in respect of some of their assets. Based on the advice of your Company's U.S. Counsel that the Chitalias' Offer be accepted since, under the U.S. law, they would be entitled to these exemptions, your Company accepted the Offer and the Bankruptcy Court ordered accordingly, thereby defeating the objective of the Chitalias to get themselves discharged as bankrupt.

The Bankruptcy proceedings before the Florida Court are, however, continuing for the purpose of collecting and distributing the property of the bankruptcy estate and your Company continues with its efforts for recovery of its dues from the Chitalias. In this process, your Company discovered certain documents evidencing possible transfer of assets/funds by the Chitalias to their associates in India. Your Company obtained the permission of the Florida Court and the Reserve Bank of India to pursue these assets/funds and has recently filed a suit in Mumbai, on behalf of the Trustees of the bankruptcy estate of the Chitalias, against the Chitalia associates. The suit is in progress.

Meanwhile, the process of inspection of the voluminous documents relating to the Show Cause Notices by the Company and the concerned individuals are yet to be completed since the Enforcement Directorate has suspended inspection. Your Company has requested the Directorate to permit resumption of inspection and their response is awaited. Recently, the Directorate issued Opportunity Notices to the Company and the concerned individuals seeking details of permissions/exemptions obtained from the Government and/or the Reserve Bank of India, in respect of the transactions alleged in the Show Cause Notices, and in the absence of such permissions/exemptions, threatening initiation of prosecution. Your Company has filed appropriate replies to these Notices explaining that the launching of such proceedings is not warranted.

TAXATION

As mentioned in the Report of the Directors for the last four years, the Company had obtained stay orders from the Hon'ble Calcutta High Court in respect of the notices served by the Income Tax Department for re-opening the past assessments for the period 1st July, 1983 to 30th June, 1986. This status remains unchanged.

As also stated in the Report of the Directors for the last four years, in respect of similar notices from the Income Tax Department for re-opening the past assessments for the period 1st April, 1990 to 31st March, 1993, the Hon'ble Calcutta High Court had admitted the Writ Petitions and ordered that no final assessment orders be passed without the leave of the Court. This status also remains unchanged.

PUBLIC DEPOSITS

As at March 31, 2002 your Company had Fixed Deposits of Rs. 50.55 crores including Rs. 4.64 crores following amalgamation of ITC Bhadrachalam Paperboards Limited. No fresh / renewal of deposits were accepted during the financial year. There was no failure to make repayments of fixed deposits on maturity and the interest due thereon in terms of the conditions of your Company's Schemes. Reminders have been sent to 800 persons who did not claim repayment of their deposits which had become due, amounting to Rs. 94.65 lakhs. The cases of fraudulent encashments as reported in previous years, continue to be under investigation by the police authorities.

INVESTOR SERVICE CENTRE

The Investor Service Centre (ISC) of your Company continues to invest in upgrading its infrastructure and systems to provide best-in-class service. Already a benchmark in-house Registrar in investor servicing, ISC consistently strives to cater

to the increasing expectations of the investors through a trained and dedicated team of professionals.

Investors' response to the section on 'Investor Relations' in your Company's website has been encouraging and the number of visitors to this section has been rising steadily. This section, inter alia, serves as a user-friendly online guide to the investors.

DIRECTORS

Shri Avinash Chander Ahuja ceased to be a Non-Executive Director of your Company with effect from 21st September, 2001, as a consequence of IFCI Limited advising your Company of its fresh nomination. Shri Brij Gopal Daga, who represented the Unit Trust of India, resigned as Non-Executive Director of your Company with effect from 31st October, 2001. Shri Antonio Americo de Figueiredo Rodrigues also resigned as Non-Executive Director of your Company with effect from 18th January, 2002.

Your Directors would like to record their appreciation of the services rendered by Sarvashri Ahuja, Daga and Rodrigues.

Shri Ajeet Prasad was appointed by the Board of Directors as Additional Non-Executive Director of your Company with effect from 7th December, 2001, as a representative of Unit Trust of India. Shri John Benedict Stevens was also appointed by the Board of Directors as Additional Non-Executive Director of your Company with effect from 18th January, 2002.

IFCI Limited appointed Shri Mudambai V. Muthu as its nominee on the Board of Directors of your Company with effect from 21st September, 2001.

By virtue of the provisions of Article 96 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956, Sarvashri Prasad and Stevens, Additional Non-Executive Directors, will vacate office at the ensuing Annual General Meeting of your Company and have filed their consent to act as Directors of the Company, if appointed. The Board of Directors of your Company at its meeting held on 22nd May, 2002, recommended for the approval of the Members, the appointment of Sarvashri Prasad and Stevens as Non-Executive Directors of your Company, liable to retire by rotation, for a period of five years from the date of the ensuing Annual General Meeting of the Company.

Notices have been received from Members of the Company under Section 257 of the Companies Act, 1956 for the appointment of Sarvashri Prasad and Stevens as Directors. Appropriate resolutions seeking your approval to their appointment are appearing in the Notice convening the 91st Annual General Meeting of the Company.

Sarvashri Pillappakkam Bahukutumbi Ramanujam and Charles Richard Green were appointed as Non-Executive Directors of your Company at the Annual General Meeting of the Company held on 30th July, 1999, for a period of three years and accordingly their present term of appointment will expire on 29th July, 2002. The Board of Directors of your Company at its meeting held on 22nd May, 2002, also recommended for the approval of the Members, their re-appointment as Non-Executive Directors of your Company, for a further period of five years with effect from 30th July, 2002.

Notices have also been received from Members of the Company under Section 257 of the Companies Act, 1956 for the re-appointment of Sarvashri Ramanujam and Green as Directors. Appropriate resolutions seeking your approval to their re-appointment are appearing in the Notice convening the 91st Annual General Meeting of the Company.

The Board of Directors, at its meeting held on 19th October, 2001, extended the term of Shri Sahibzada Syed Habib-ur-Rehman as Wholetime Director of the Company by a further period of two years from 21st March, 2002 to 20th March, 2004. Appropriate resolution seeking your approval to such extension of term of Shri Rehman is appearing in the Notice convening the 91st Annual General Meeting of the Company.

Shri Nigel Timothy Gourlay ceased to be Alternate Director to Shri Green with effect from 18th October, 2001 in terms of Section 313 of the Companies Act, 1956. Shri Rodrigues, who was appointed by the Board of Directors of your Company as Alternate Director to Shri Green with effect from 23rd January, 2002, has also ceased to be Alternate Director with effect from 22nd May, 2002.

In accordance with the provisions of Article 91 of the Articles of Association of the Company,

Shri Charles Richard Green, Dr. Basudeb Sen and Shri Balakrishnan Vijayaraghavan will retire by rotation at the ensuing Annual General Meeting of your Company and, being eligible, offer themselves for re-election. Your Board of Directors has also recommended their re-appointment.

AUDITORS

The Auditors, Messrs. A. F. Ferguson & Co., retire at the ensuing Annual General Meeting and, being eligible, offer themselves for re-appointment. Since not less than 25% of the subscribed Share Capital of your Company is held collectively by Public Financial Institutions, the re-appointment of Auditors is being proposed as a Special Resolution in accordance with Section 224A of the Companies Act, 1956.

EMPLOYEE STOCK OPTION SCHEME

Pursuant to the Employee Stock Option Scheme of your Company introduced during the last financial year, 3,39,119 Options were granted for the financial year 2000-01 to the eligible employees of your Company and those of the Company's subsidiary companies.

Details of the Options granted, as required under Clause 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, are set out in the Annexure to this Report.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217 (2AA) of the Companies Act, 1956, your Directors confirm having:

a) followed in the preparation of the Annual Accounts, the applicable accounting standards with proper explanation relating to material departures;

b) selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company at the end of the financial year and of the profit of your Company for that period;

c) taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities; and

d) prepared the Annual Accounts on a going concern basis.

CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Accounting Standard 21 - Consolidated Financial Statements, ITC Group Accounts form part of this Report & Accounts. These Group accounts have been prepared on the basis of audited financial statements received from Subsidiary Companies, as approved by their respective Boards.

OTHER INFORMATION

The certificate of the Auditors, Messrs. A. F. Ferguson & Co. confirming compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges in India, is annexed. Particulars as required under Section 217(1)(e) of the Companies Act, 1956 relating to Conservation of Energy and Technology Absorption are also provided in the Annexure to this Report together with particulars of Employees as required under Section 217(2A) of the Companies Act, 1956.

CONCLUSION

Your Company continues its relentless focus on strengthening competitiveness in all its businesses. It is the endeavour of your Company to deploy resources in a balanced manner so as to secure the interest of the shareholders in the short, medium and long terms.

Your Directors look forward to the future with confidence.

22nd May, 2002
Virginia House
37 J L Nehru Road
Kolkata 700 071
India

On behalf of the Board

A. SINGH Director
K. VAIDYANATH Director

ANNEXURES TO THE REPORT OF THE DIRECTORS

FOR THE FINANCIAL YEAR ENDED 31ST MARCH, 2002

Statement for the financial year ended 31st March, 2002, pursuant to Clause 12 (Disclosure in the Directors' Report) of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, and forming part of the Report of the Directors.

a)	Options granted	:	3,39,119
b)	Pricing formula	:	Rs. 779.95 per Option, being the closing market price of the Ordinary Shares of the Company on the National Stock Exchange of India Limited on the date of grant of Options.
c)	Options vested	:	Nil
d)	Options exercised	:	Nil
e)	The total number of Ordinary Shares arising as a result of exercise of Options	:	Nil
f)	Options lapsed	:	23,076*
g)	Variation of terms of Options	:	Nil
h)	Money realised by exercise of Options	:	Nil
i)	Total number of Options in force	:	3,16,043
j)	i. Details of Options granted to senior managerial personnel	:	

	Name	Designation	No. of Options granted
1	Y. C. Deveshwar	Chairman & Wholetime Director	27,694
2	S. S. H. Rehman	Wholetime Director	11,539
3	A. Singh	Wholetime Director	11,539
4	K. Vaidyanath	Wholetime Director	9,231
5	A. C. Ahuja	Non-Executive Director	7,692
6	B. G. Daga	Non-Executive Director	7,692
7	C. R. Green	Non-Executive Director	7,692
8	Y. P. Gupta	Non-Executive Director	7,692
9	P. B. Ramanujam	Non-Executive Director	7,692
10	A. A. F. Rodrigues	Non-Executive Director	7,692
11	B. Sen	Non-Executive Director	7,692
12	Ram S. Tarneja	Non-Executive Director	7,692
13	R. Vasudevan	Non-Executive Director	7,692
14	B. Vijayaraghavan	Non-Executive Director	7,692
15	K. S. Vaidyanathan	Senior Vice President, Corporate Affairs	6,923
16	A. Nayak	Executive Vice President - Corporate Human Resources	6,923
17	R. Srinivasan	Divisional Chief Executive, PPD	6,923
18	K. N. Grant	Divisional Chief Executive, ITD	6,923
19	R. G. Jacob	Divisional Chief Executive, TTD	6,923
20	B. B. Chatterjee	Executive Vice President & Company Secretary	4,074

ii.	Any other employee who receives a grant in any one year of Options amounting to 5% or more of Options granted during that year.	:	None
iii.	Identified employees who were granted Options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant.	:	None
k)	Diluted Earnings per Share (EPS) pursuant to issue of shares on exercise of Options calculated in accordance with International Accounting Standard (IAS) 33.	:	NA

* Represents Options granted to Sarvashri A. C. Ahuja, B. G. Daga and A. A. F. Rodrigues, Non-Executive Directors of the Company, which have lapsed consequent upon cessation of their Directorship.

CERTIFICATE OF COMPLIANCE FROM AUDITORS AS STIPULATED UNDER CLAUSE 49 OF THE LISTING AGREEMENT OF THE STOCK EXCHANGES IN INDIA

CERTIFICATE

To the Shareholders

We have examined the compliance of conditions of Corporate Governance by ITC Limited for the year ended on 31st March, 2002, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that in respect of investor grievances received during the year ended 31st March, 2002, no investor grievances are pending against the company as per the records maintained by the company and presented to the Investor Services Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For A.F. FERGUSON & CO.
Chartered Accountants

A.K. MAHINDRA
Partner

Kolkata, 22nd May, 2002